

**SALHIA REAL ESTATE COMPANY  
K.S.C.P. AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION (UNAUDITED)**

**30 JUNE 2014**



Building a better  
working world

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## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF SALHIA REAL ESTATE COMPANY K.S.C.P.**

### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Salhia Real Estate Company K.S.C.P. (the “Parent Company”) and its subsidiaries (collectively “the Group”) as at 30 June 2014 and the related interim condensed consolidated statements of income and comprehensive income for the three months and six months periods then ended, and the related interim condensed consolidated statement of changes in equity and cash flows for the six months period then ended. The management of the Parent Company is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Basis for Qualified Conclusion**

The interim condensed consolidated financial information includes amounts in respect of an investment in a joint venture based on management accounts, as reviewed interim financial information is not available in respect of this joint venture. The carrying value of the joint venture included in the interim condensed consolidated financial position amounts to KD 17,785,053 (30 June 2013: KD 13,721,796) and the share of the joint venture’s results for the three months and six months period ended 30 June 2014 included in the interim condensed consolidated statement of income is a profit of KD 546,795 and KD 1,063,977 respectively (three months and six months periods ended 30 June 2013: profit of KD 663,994 and KD 1,320,564 respectively).

### **Qualified Conclusion**

Based on our review, except for the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF SALHIA REAL ESTATE COMPANY K.S.C.P. (continued)**

**Report on Other Legal and Regulatory Requirements**

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of accounts of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 25 of 2012, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association that might have had a material effect on the business of the Parent Company or on its financial position during the six months period ended 30 June 2014.



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WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS



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ALI A. AL-HASAWI  
LICENCE NO. 30 A  
RÖDL MIDDLE EAST  
BURGAN – INTERNATIONAL ACCOUNTANTS

12 August 2014  
Kuwait

Salhia Real Estate Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

Period ended 30 June 2014

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	KD	KD	KD	KD
Revenues	11,043,985	11,307,399	22,479,636	23,074,870
Operating costs	(4,974,131)	(4,642,793)	(9,715,558)	(9,090,225)
Gross profit	6,069,854	6,664,606	12,764,078	13,984,645
Share in joint venture's results	546,795	663,994	1,063,977	1,320,564
General and administrative expenses	(1,322,094)	(889,184)	(2,617,522)	(2,287,251)
Depreciation	(1,501,177)	(1,556,107)	(3,064,908)	(3,114,361)
Sales and marketing expenses	(185,579)	(289,913)	(445,998)	(487,903)
Investment income	3 650,185	140,517	717,969	251,191
Foreign exchange gain (loss)	103,407	8,160	118,820	(125,548)
Interest income	55,732	48,399	135,955	133,827
Other income	29,044	55,729	204,807	70,148
Impairment loss on financial assets available for sale	(244,043)	(828,414)	(266,316)	(1,311,729)
Finance costs	(1,041,786)	(1,614,459)	(2,229,161)	(3,140,534)
Profit before tax	3,160,338	2,403,328	6,381,701	5,293,049
Foreign tax	(270,341)	(258,563)	(827,817)	(496,815)
<b>PROFIT BEFORE CONTRIBUTION TO KFAS, NLST AND ZAKAT</b>	<b>2,889,997</b>	<b>2,144,765</b>	<b>5,553,884</b>	<b>4,796,234</b>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	(28,754)	(21,830)	(55,510)	(48,173)
National Labour Support Tax (NLST)	(71,884)	(54,575)	(138,775)	(120,432)
Zakat	(28,754)	(21,830)	(55,510)	(48,173)
<b>PROFIT FOR THE PERIOD</b>	<b>2,760,605</b>	<b>2,046,530</b>	<b>5,304,089</b>	<b>4,579,456</b>
Attributable to:				
Equity holders of the Parent Company	2,745,977	2,084,747	5,301,211	4,600,496
Non-controlling interests	14,628	(38,217)	2,878	(21,040)
	2,760,605	2,046,530	5,304,089	4,579,456
<b>BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE PARENT COMPANY</b>	<b>4 5.5 fils</b>	<b>4.2 fils</b>	<b>10.7 fils</b>	<b>9.3 fils</b>

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial information.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Period ended 30 June 2014

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
Note	(Unaudited) KD	(Unaudited) KD	(Unaudited) KD	(Unaudited) KD
<b>Profit for the period</b>	<b>2,760,605</b>	<b>2,046,530</b>	<b>5,304,089</b>	<b>4,579,456</b>
<b>Other comprehensive income</b>				
<i>Other comprehensive income (loss) to be reclassified to consolidated statement of income in subsequent periods:</i>				
Net movement in cumulative changes in fair value	(345,911)	(246,623)	(329,473)	(111,272)
Impairment loss transferred to interim condensed consolidated statement of income	237,983	100,051	237,983	183,366
Exchange differences arising on translation of foreign operations	279,376	255,962	229,693	(779,658)
<b>Net other comprehensive income (loss) to be reclassified to consolidated statement of income in subsequent periods</b>	<b>171,448</b>	<b>109,390</b>	<b>138,203</b>	<b>(707,564)</b>
<i>Other comprehensive income (loss) not to be reclassified to consolidated statement of income subsequent periods:</i>				
Realised (gain) loss on sale of financial assets available for sale	3 (569,918)	1,299	(599,122)	(25,322)
<b>Net other comprehensive (income) loss not to be reclassified to consolidated statement of income in subsequent periods</b>	<b>(569,918)</b>	<b>1,299</b>	<b>(599,122)</b>	<b>(25,322)</b>
<b>Total other comprehensive (loss) income for the period</b>	<b>(398,470)</b>	<b>110,689</b>	<b>(460,919)</b>	<b>(732,886)</b>
<b>Total comprehensive income for the period</b>	<b>2,362,135</b>	<b>2,157,219</b>	<b>4,843,170</b>	<b>3,846,570</b>
Attributable to:				
Equity holders of the Parent Company	2,360,194	2,135,344	4,852,078	3,852,393
Non-controlling interests	1,941	21,875	(8,908)	(5,823)
	<b>2,362,135</b>	<b>2,157,219</b>	<b>4,843,170</b>	<b>3,846,570</b>

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial information.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 June 2014

	Notes	30 June 2014 (Unaudited) KD	31 December 2013 (Audited) KD	30 June 2013 (Unaudited) KD
<b>ASSETS</b>				
Cash and cash equivalents	5	6,294,022	7,285,873	10,764,916
Fixed deposits		2,724,171	2,657,964	1,834,841
Inventories		376,020	328,239	382,539
Accounts receivable and other assets		6,801,865	6,904,552	4,818,425
Financial assets available for sale	6	10,359,293	11,318,456	15,985,115
Investment in joint venture		17,785,053	16,907,027	13,721,796
Investment properties	7	143,770,833	142,831,144	143,054,867
Property and equipment		83,964,736	86,042,042	85,804,522
<b>TOTAL ASSETS</b>		<b>272,075,993</b>	<b>274,275,297</b>	<b>276,367,021</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and a financial institution	5	-	-	1,262,264
Accounts payable and other liabilities		17,340,797	16,644,670	16,879,312
Commercial financing	8	26,986,665	27,674,387	28,311,291
Islamic financing	8	89,625,000	86,750,000	100,625,000
<b>TOTAL LIABILITIES</b>		<b>133,952,462</b>	<b>131,069,057</b>	<b>147,077,867</b>
<b>EQUITY</b>				
Share capital	9	51,272,341	51,272,341	51,272,341
Share premium		35,055,163	35,055,163	35,055,163
Treasury shares	10	(3,961,006)	(3,941,495)	(3,941,495)
Treasury shares reserve	10	1,817,810	1,817,810	1,817,810
Statutory reserve		23,054,698	23,054,698	21,368,779
Voluntary reserve		20,489,290	20,489,290	20,489,290
Other reserve		-	-	(663,600)
Retained earnings		9,887,284	14,492,441	5,431,782
Fair value reserve		(2,435,151)	(1,744,539)	(1,793,748)
Foreign currency translation reserve		(38,668)	(280,147)	(2,429,403)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		<b>135,141,761</b>	<b>140,215,562</b>	<b>126,606,919</b>
Non-controlling interests		2,981,770	2,990,678	2,682,235
<b>TOTAL EQUITY</b>		<b>138,123,531</b>	<b>143,206,240</b>	<b>129,289,154</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>272,075,993</b>	<b>274,275,297</b>	<b>276,367,021</b>



Ghazi Fahad Alnafisi  
Chairman

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial information.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Period ended 30 June 2014

Attributable to equity holders of the Parent Company

	Share capital KD	Share premium KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	Voluntary reserve KD	Other reserve KD	Retained earnings KD	Fair value reserve KD	Foreign currency translation reserve KD	Subtotal KD	Non-controlling interests		Total equity KD
Balance at 1 January 2014 (Audited)	51,272,341	35,055,163	(3,941,495)	1,817,810	23,054,698	20,489,290	-	14,492,441	(1,744,539)	(280,147)	140,215,562	2,990,678		143,206,240
Profit for the period	-	-	-	-	-	-	-	5,301,211	(690,612)	241,479	5,301,211	2,878		5,304,089
Other comprehensive (loss) income	-	-	-	-	-	-	-	-	-	-	(449,133)	(11,786)		(460,919)
Total comprehensive income (loss)	-	-	-	-	-	-	-	5,301,211	(690,612)	241,479	4,852,078	(8,908)		4,843,170
Purchase of treasury shares	-	-	(19,511)	-	-	-	-	-	-	-	(19,511)	-		(19,511)
Dividends (Note 9)	-	-	-	-	-	-	-	(9,906,368)	-	-	(9,906,368)	-		(9,906,368)
<b>Balance at 30 June 2014</b>	<b>51,272,341</b>	<b>35,055,163</b>	<b>(3,961,006)</b>	<b>1,817,810</b>	<b>23,054,698</b>	<b>20,489,290</b>	<b>-</b>	<b>9,887,284</b>	<b>(2,435,151)</b>	<b>(38,668)</b>	<b>135,141,761</b>	<b>2,981,770</b>		<b>138,123,531</b>
Balance at 1 January 2013 (Audited)	51,272,341	35,055,163	(3,941,495)	1,817,810	21,368,779	20,489,290	(663,600)	8,261,137	(1,840,520)	(1,634,528)	130,184,377	2,688,058		132,872,435
Profit (loss) for the period	-	-	-	-	-	-	-	4,600,496	46,772	(794,875)	4,600,496	(21,040)		4,579,456
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	(748,103)	15,217		(732,886)
Total comprehensive income (loss)	-	-	-	-	-	-	-	4,600,496	46,772	(794,875)	3,852,393	(5,823)		3,846,570
Dividends (Note 9)	-	-	-	-	-	-	-	(7,429,851)	-	-	(7,429,851)	-		(7,429,851)
<b>Balance at 30 June 2013</b>	<b>51,272,341</b>	<b>35,055,163</b>	<b>(3,941,495)</b>	<b>1,817,810</b>	<b>21,368,779</b>	<b>20,489,290</b>	<b>(663,600)</b>	<b>5,431,782</b>	<b>(1,793,748)</b>	<b>(2,429,403)</b>	<b>126,606,919</b>	<b>2,682,235</b>		<b>129,289,154</b>

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial information.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

Period ended 30 June 2014

	<i>Six months ended</i>	
	<i>30 June</i>	
	<i>2014</i>	<i>2013</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>KD</i>	<i>KD</i>
<i>Note</i>		
<b>OPERATING ACTIVITIES</b>		
Profit before provision for contribution to KFAS, NLST and Zakat	5,553,884	4,796,234
Adjustments for:		
Share in joint venture's results, net of tax	(349,425)	(937,692)
Depreciation	3,064,908	3,114,361
Provision for employees' end of service benefits	296,616	409,352
Investment income	(717,969)	(251,146)
Foreign exchange (gain) loss	(118,820)	125,548
Interest income	(135,955)	(133,827)
Impairment loss on financial assets available for sale	266,316	1,311,729
Finance costs	2,229,161	3,140,534
	<b>10,088,716</b>	<b>11,575,093</b>
Change in operating assets and liabilities:		
Inventories	(47,781)	(12,697)
Accounts receivable and other assets	102,687	205,923
Accounts payable and other liabilities	(509,120)	(275,841)
Cash from operations	9,634,502	11,492,478
Employees' end of service benefits paid	(68,860)	(487,702)
KFAS paid	-	(79,154)
Directors remuneration paid	-	(120,000)
Net cash flows from operating activities	<b>9,565,642</b>	<b>10,805,622</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of financial assets available for sale	-	(277,130)
Proceeds from sale of financial assets available for sale	1,057,202	61,149
Additions to investment properties and property and equipment	(2,125,191)	(1,065,582)
Proceeds from sale of property and equipment	2,405	5,805
Investment income received	118,847	225,868
Interest income received	135,955	133,827
Term deposits	(66,207)	1,629,476
Net cash flows (used in) from investing activities	<b>(876,989)</b>	<b>713,413</b>
<b>FINANCING ACTIVITIES</b>		
Bank loans received	10,000,000	6,000,000
Bank loans repaid	(7,568,187)	(2,720,669)
Finance costs paid	(2,186,438)	(2,967,183)
Dividends paid	(9,906,368)	(7,429,851)
Purchase of treasury shares	(19,511)	-
Net cash flows used in financing activities	<b>(9,680,504)</b>	<b>(7,117,703)</b>
<b>NET (DECREASE) INCREASE IN CASH AND BANK BALANCES</b>	<b>(991,851)</b>	<b>4,401,332</b>
Cash and bank balances at the beginning of the period	7,285,873	5,101,320
<b>CASH AND BANK BALANCES AT THE END OF THE PERIOD</b>	<b>5 6,294,022</b>	<b>9,502,652</b>

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial information.



# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

### 1 CORPORATE INFORMATION

The interim condensed consolidated financial statements of Salhia Real Estate Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively "the Group") for the six months period ended 30 June 2014 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 12 August 2014.

The Group comprises Salhia Real Estate Company K.S.C.P. and its subsidiaries listed in Note 15.

The Parent Company is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. Its registered office is located at Salhia Complex, Mohammed Thunayan Al-Ghanim, P.O. Box 23413 Safat 13095 Kuwait.

The Group's main activities comprise real estate leasing and development of commercial properties and hotel operations in Kuwait and care home operation in Germany. Surplus funds are invested in real estate and securities portfolios managed by specialist investment managers.

The new Companies Law issued on 26 November 2012 by Decree Law No. 25 of 2012 (the "Companies Law"), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 (the Decree). The Executive Regulations of the new amended law issued on 29 September 2013 and was published in the official Gazette on 6 October 2013. The Parent Company has complied with the new Companies Law and its Executive Regulations as of the reporting period.

### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of presentation**

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting".

The interim condensed consolidated financial information is presented in Kuwaiti Dinars (KD).

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013. Furthermore, results for the six months period ended 30 June 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

#### **New standards, interpretations and amendments adopted by the Group**

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of the new and amended International Financial Reporting Standards that have become effective from 1 January 2014 and those which are applicable to the Group:

#### *IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)*

These amendments are effective for annual periods beginning on or after 1 January 2014 and clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments have not resulted in any impact on the financial position or performance of the Group.

#### *IAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendment)*

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. These amendments have not resulted in any impact on the financial position or performance of the Group.

# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

### 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective

The following IASB Standards have been issued but are not yet effective and have not been early adopted by the Group. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

#### *IFRS 15 – Revenue from Contracts with customers (“IFRS 15”)*

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRS 15, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and does not expect any significant impact on adoption of this standard.

### 3 INVESTMENT INCOME

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Gain (loss) on sale of financial assets available for sale	569,918	(1,299)	599,122	25,323
Dividend income	80,267	141,816	118,847	225,868
	<u>650,185</u>	<u>140,517</u>	<u>717,969</u>	<u>251,191</u>

### 4 BASIC AND DILUTED EARNINGS PER SHARE

#### *Basic:*

Basic earnings per share attributable to equity holders of the Parent Company is computed by dividing the profit for the period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period (excluding treasury shares).

#### *Diluted:*

Diluted earnings per share attributable to the equity holders of the Parent Company is computed by dividing the profit for the period attributable to the equity holders of the Parent Company, adjusted for the effect of conversion of employees share options, by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all employees share options. The Parent Company does not have outstanding share options under the employee share option plan as at 30 June 2014.

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit for the period attributable to equity holders of the Parent Company (KD)	2,745,977	2,084,747	5,301,211	4,600,496
Weighted average number of ordinary shares outstanding during the period (excluding treasury shares)	495,317,555	495,323,413	495,316,646	495,323,413
Basic and diluted earnings per share	<u>5.5 fils</u>	<u>4.2 fils</u>	<u>10.7 fils</u>	<u>9.3 fils</u>

Salhia Real Estate Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

**5 CASH AND BANK BALANCES**

Cash and cash equivalents included in the interim condensed consolidated statement of cash flows include the following:

	<i>30 June 2014 (Unaudited) KD</i>	<i>31 December 2013 (Audited) KD</i>	<i>30 June 2013 (Unaudited) KD</i>
Cash and bank balances	6,294,022	7,285,873	10,764,916
Due to banks contractually due within three months	-	-	(1,262,264)
	<u>6,294,022</u>	<u>7,285,873</u>	<u>9,502,652</u>

**6 FINANCIAL ASSETS AVAILABLE FOR SALE**

	<i>30 June 2014 (Unaudited) KD</i>	<i>31 December 2013 (Audited) KD</i>	<i>30 June 2013 (Unaudited) KD</i>
Managed quoted portfolios	2,350,425	2,470,957	2,864,348
Managed funds	87,237	454,037	454,037
Unquoted securities	7,921,631	8,393,462	12,666,730
	<u>10,359,293</u>	<u>11,318,456</u>	<u>15,985,115</u>

  

	<i>30 June 2014 (Unaudited) KD</i>	<i>31 December 2013 (Audited) KD</i>	<i>30 June 2013 (Unaudited) KD</i>
Local investments	4,195,586	4,662,902	5,790,955
Foreign investments	6,163,707	6,655,554	10,194,160
	<u>10,359,293</u>	<u>11,318,456</u>	<u>15,985,115</u>

Managed quoted portfolios represent local and foreign equity investments and are carried at market bid prices and fair values as reported by the portfolio managers. During the period, the Parent Company recorded an impairment loss of KD 49,350 (30 June 2013: KD 182,729) against investments for prolonged decline in value.

Managed funds represent investments in mutual funds which are carried at the latest net asset value provided by the respective fund managers. During the period, the Parent Company recorded an impairment loss of KD 194,694 (30 June 2013: Nil) against investments for prolonged decline in value.

Unquoted securities amounting to KD 7,826,819 (31 December 2013: KD 7,900,811, 30 June 2013: KD 9,329,515) are carried at cost less impairment since fair values cannot be reliably estimated and the investment managers have been unable to indicate any estimates of the range within which fair values might lie. During the period, the Group recorded an impairment loss of KD 22,272 (31 December 2013 : KD 497,470, 30 June 2013: 21,205) in the interim condensed consolidated statement of income.

Unquoted equity securities amounting to KD 94,812 (31 December 2013: KD 492,651, 30 June 2013: KD 3,337,215) are carried at fair value as reported by the portfolio manager.

Unquoted equity securities include an investment with a carrying value of KD Nil (31 December 2013: KD Nil, 30 June 2013 : KD 3,337,215) in a regional company which has filed a voluntary case under Chapter 11 of the United States Bankruptcy Code to protect the business and assets of the Company during the last year. During the period, the Group recorded an impairment loss of KD Nil (31 December 2013 : KD 4,066,215, 30 June 2013: KD 1,129,000) in the interim condensed consolidated statement of income.

# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

### 7 INVESTMENT IN PROPERTIES

	<i>30 June 2014 (Unaudited) KD</i>	<i>31 December 2013 (Audited) KD</i>	<i>30 June 2013 (Unaudited) KD</i>
At 1 January	142,831,144	143,705,580	143,705,580
Additions	1,630,428	803,581	497,141
Depreciation	(878,855)	(1,757,603)	(878,731)
Foreign currency translation adjustment	188,116	79,586	(269,123)
	<u>143,770,833</u>	<u>142,831,144</u>	<u>143,054,867</u>

Investment properties with a carrying value of KD 4,898,246 (2013: KD 4,749,310) are registered in the name of a nominee. The nominee has confirmed in writing that the Parent Company is the beneficial owner of the properties.

### 8 COMMERCIAL AND ISLAMIC FINANCING

	<i>30 June 2014 (Unaudited) KD</i>	<i>31 December 2013 (Audited) KD</i>	<i>30 June 2013 (Unaudited) KD</i>
At 1 January	114,424,387	125,705,540	125,705,540
Loans received	10,000,000	7,000,000	6,000,000
Loans repaid	(7,568,187)	(19,544,160)	(2,720,669)
Foreign currency translation adjustment	(244,535)	1,263,007	(48,580)
	<u>116,611,665</u>	<u>114,424,387</u>	<u>128,936,291</u>

Commercial financing are repayable in periodic installments over variable periods of time with maturities extending to December 2030.

Commercial financing denominated in Kuwaiti Dinar carry variable interest rates, which range from 1.5% to 1.75% per annum (31 December 2013: 1.5% to 1.75%, 30 June 2013: 1.5% to 1.75%, per annum) over the Central Bank of Kuwait discount rate. The foreign currency financing carries variable interest rates which range from 1.5% to 2% per annum (31 December 2013: 1.5% to 2%, 30 June 2013: 1.5% to 2% per annum) over Euribor.

The average profit rate attributable to Islamic financing during the period is 1.75% per annum (31 December 2013: 1.75%, 30 June 2013: 1.75% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 53,000,000 has been obtained by a local subsidiary acquired during 2011, and is secured by an investment property with a carrying value of KD 80,239,517 owned by the Group. Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default.

### 9 SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the Annual General Assembly of the shareholders of the Parent Company held on 9 April 2014, the shareholders approved the distribution of cash dividends of 20 fils per share (2012: 15 fils per share) amounting to KD 9,906,368 for the year ended 31 December 2013 (2012: KD 7,429,851) for shareholders registered on that date.

As at 30 June 2014, the authorized, issued and paid up capital comprises of 512,723,413 shares at 100 fils per share each (31 December 2013: 512,723,413 shares, 30 June 2013: 512,723,413 shares), fully paid in cash.

# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

### 10 TREASURY SHARES

At 30 June 2014, the Parent Company held 17,453,697 of its own shares (31 December 2013: 17,400,000, 30 June 2013: 17,400,000), equivalent to 3.40% (31 December 2013: 3.39%, 30 June 2013: 3.39%) of the total issued share capital at that date. The market value of these shares at the financial position date was KD 6,457,868 (31 December 2013: KD 6,699,000, 30 June 2013: KD 5,829,000). Reserves of the Parent Company equivalent to the cost of the treasury shares have been ear-marked as non-distributable.

### 11 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

The fair values of financial instruments, with the exception of certain financial assets available-for-sale carried at cost (see Note 6) are not materially different from their carrying values.

#### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

30 June 2014	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Managed quoted portfolios	2,350,425	-	-	2,350,425
Managed funds	-	87,237	-	87,237
Unquoted securities	-	-	94,812	94,812
	<u>2,350,425</u>	<u>87,237</u>	<u>94,812</u>	<u>2,532,474</u>
31 December 2013	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Managed quoted portfolios	2,470,957	-	-	2,470,957
Managed funds	-	454,037	-	454,037
Unquoted securities	-	-	492,651	492,651
	<u>2,470,957</u>	<u>454,037</u>	<u>492,651</u>	<u>3,417,645</u>
30 June 2013	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Managed quoted portfolios	4,420,773	-	-	4,420,773
Managed funds	-	454,037	-	454,037
Unquoted securities	-	-	3,337,215	3,337,215
	<u>4,420,773</u>	<u>454,037</u>	<u>3,337,215</u>	<u>8,212,025</u>

During the period ended 30 June 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2014

### 11 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the beginning and closing balances of the financial instruments classified in level 3 of the fair value hierarchy:

	<i>At 1 January 2014 KD</i>	<i>Income/(loss) recorded in the consolidated income statement KD</i>	<i>Gain/(loss) recorded in equity KD</i>	<i>Net purchases, sales, transfers and settlements KD</i>	<i>At 30 June 2014 KD</i>
<b>30 June 2014</b>					
Assets measured at fair value					
<i>Financial assets available for sale</i>					
Unquoted securities	492,651	-	-	(397,839)	94,812
<b>31 December 2013</b>					
Assets measured at fair value					
<i>Financial assets available for sale</i>					
Unquoted securities	5,132,327	(5,073,812)	434,136	-	492,651
<b>30 June 2013</b>					
Assets measured at fair value					
<i>Financial assets available for sale</i>					
Unquoted securities	5,132,327	(1,129,000)	(666,112)	-	3,337,215

### 12 SEGMENTAL INFORMATION

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss as explained in the table below.

The Group has the following reportable segments:

- Real estate operations: Consist of development and leasing of properties.
- Hotel operations: Consist of the hotel hospitality services provided through the JW Marriott Hotel – Kuwait, the Courtyard Marriott Hotel - Kuwait, and Arraya Ball Room - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 30 June 2014

12 SEGMENTAL INFORMATION (continued)

The following table presents revenue and profit information regarding the Group's operating segments:

	Six months ended 30 June 2014 (Unaudited)			Six months ended 30 June 2013 (Unaudited)				
	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD
Segment revenues	7,960,605	6,548,146	7,970,885	22,479,636	7,893,643	7,511,054	7,670,173	23,074,870
Segment operating costs	(1,327,240)	(2,584,533)	(5,803,785)	(9,715,558)	(962,005)	(2,592,653)	(5,535,567)	(9,090,225)
Segment gross profit	6,633,365	3,963,613	2,167,100	12,764,078	6,931,638	4,918,401	2,134,606	13,984,645
Share in joint venture's results	1,063,977	-	-	1,063,977	1,320,564	-	-	1,320,564
Depreciation	(1,531,600)	(930,215)	(603,093)	(3,064,908)	(1,541,830)	(982,623)	(589,908)	(3,114,361)
Other operating expenses	(1,917,364)	(479,651)	(666,505)	(3,063,520)	(1,398,817)	(735,593)	(640,745)	(2,775,155)
Finance costs	(1,640,930)	(40,763)	(547,468)	(2,229,161)	(2,310,627)	(48,045)	(781,862)	(3,140,534)
Foreign tax	(714,552)	-	(113,265)	(827,817)	(382,873)	-	(113,942)	(496,815)
Segment results	1,892,896	2,512,984	236,769	4,642,649	2,618,055	3,152,140	8,149	5,778,344
Interest income				135,955				133,827
Investment income				717,969				251,191
Impairment loss on financial assets available for sale				(266,316)				(1,311,729)
Other non-operating income (expense) KFAS, NLST and Zakat				323,627				(55,399)
				(249,795)				(216,778)
<b>Profit for the period</b>				<b>5,304,089</b>				<b>4,579,456</b>

Salhia Real Estate Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 30 June 2014

12 SEGMENTAL INFORMATION (continued)

	Three months ended 30 June 2014 (Unaudited)			Three months ended 30 June 2013 (Unaudited)		
	Real estate operations KD	Hotel operations KD	Care home operations KD	Real estate operations KD	Hotel operations KD	Care home operations KD
Segment revenues	3,971,826	3,031,227	4,040,932	4,022,057	3,511,877	3,773,465
Segment operating costs	(784,006)	(1,251,149)	(2,938,976)	(509,017)	(1,349,977)	(2,783,799)
Segment gross profit	3,187,820	1,780,078	1,101,956	3,513,040	2,161,900	989,666
Share in joint venture's results	546,795	-	-	663,994	-	-
Depreciation	(758,002)	(440,689)	(302,486)	(770,552)	(491,697)	(293,858)
Other operating expenses	(964,972)	(208,034)	(334,667)	(552,380)	(300,491)	(326,227)
Finance costs	(749,501)	(20,040)	(272,245)	(1,202,982)	(23,859)	(387,618)
Foreign tax	(214,978)	-	(55,363)	(205,199)	-	(53,364)
Segment results	1,047,162	1,111,315	137,195	1,445,921	1,345,853	(71,401)
Interest income						
Investment income			55,732			48,399
Impairment loss on financial assets available for sale			650,185			140,517
Other non-operating income			(244,043)			(828,414)
KFAS, NLST and Zakat			132,451			63,889
			(129,392)			(98,235)
<b>Profit for the period</b>			<b>2,760,605</b>			<b>2,046,530</b>



Salhia Real Estate Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At 30 June 2014

12 SEGMENTAL INFORMATION (continued)

	30 June 2014 (Unaudited)				31 December 2013 (Audited)				30 June 2013 (Unaudited)			
	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD
Total assets	222,396,790	4,895,031	44,784,172	272,075,993	225,413,871	6,108,600	42,752,826	274,275,297	230,761,022	5,299,200	40,306,799	276,367,021
Total liabilities	103,570,634	2,517,480	27,864,348	133,952,462	99,652,315	2,723,785	28,692,957	131,069,057	114,628,799	2,859,718	29,589,350	147,077,867

Salhia Real Estate Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

At 30 June 2014

**13 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

At the financial position date, the Group had the following contingencies and capital commitments:

	<i>30 June 2014 (Unaudited) KD</i>	<i>31 December 2013 (Audited) KD</i>	<i>30 June 2013 (Unaudited) KD</i>
Letters of guarantee	16,761,566	16,761,566	16,761,566
Construction projects	17,872,578	18,332,578	14,552,071
	<u>34,634,144</u>	<u>35,094,144</u>	<u>31,313,637</u>

**14 RELATED PARTY TRANSACTIONS**

Related parties represent the major shareholders, joint venture, directors and key management personnel of the Group, and companies which are controlled by them or over which they have significant influence. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Balances with related parties included in the interim condensed consolidated statement of financial position are as follows:

	<i>Directors and key management personnel KD</i>	<i>Other KD</i>	<i>30 June 2014 (Unaudited) KD</i>	<i>31 December 2013 (Audited) KD</i>	<i>30 June 2013 (Unaudited) KD</i>
Staff receivables	-	127,895	127,895	287,088	301,642

**Compensation of key management personnel**

The remuneration of key management personnel of the Group during the period was as follows:

	<i>30 June 2014 (Unaudited) KD</i>	<i>30 June 2013 (Unaudited) KD</i>
Short-term benefits	583,800	354,763
Employees' end of service benefits	54,566	81,300
	<u>638,366</u>	<u>436,063</u>

Salhia Real Estate Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

At 30 June 2014

15 SUBSIDIARIES

<i>Name of the company</i>	<i>Percentage of ownership</i>		<i>Country of incorporation</i>	<i>Principal activity</i>
	<i>30 June 2014</i>	<i>31 December 2013</i>		
<i>Directly held:</i>				
Haddia Holding GMBH	90.89%	90.89%	Germany	Holding company
Drawbridge Securities Limited (a)	50.00%	50.00%	United Kingdom	Property development
Salhia International Investment Limited	100.00%	100.00%	United Kingdom	Property development
Bunyan Al-Salhia Project Management Company W.L.L.	99.00%	99.00%	Kuwait	Project management
Al Asima Real Estate Company K.S.C	99.74%	99.74%	Kuwait	Real estate
<i>Held through Haddia Holding GMBH:</i>				
SAREC GMBH	100.00%	100.00%	Germany	Leasing of properties
DANA Lebensstil GmbH (a)	50.00%	50.00%	Germany	Dormant company
Dana Senioreneinrichtungen GMBH (a)	40.00%	40.00%	Germany	Care home operator
Dana Ambulante Pflegedienste GMBH (a)	40.00%	40.00%	Germany	Care home service provider
Dana Services GMBH (Gredo GMBH) (a)	40.00%	40.00%	Germany	Care home catering service provider
<i>Held through Salhia International Investments Limited:</i>				
Salhia Jersey Limited	100.00%	100.00%	United Kingdom	Real estate
Salhia Investments (Birmingham) Limited	100.00%	100.00%	United Kingdom	Real estate
Ingelby Limited	100.00%	100.00%	United Kingdom	Property development

(a) During the period ended 30 June 2014, the Group continued to consolidate Drawbridge Securities Limited, DANA Lebensstil GmbH, Dana Senioreneinrichtungen GMBH, Dana Ambulante Pflegedienste GMBH and Dana Services GMBH (Gredo GMBH) as the Group has in substance the majority of ownership risks in order to obtain benefits from their activities.